

December 3, 2008

The Honorable Robert Zoellick
President
The World Bank
1818 H Street, N.W.
Washington, DC 20433

Dear President Zoellick:

We thank you for your response to our February 2008 letter, which followed the meeting some of us had with you in October of 2007. We appreciate the time and consideration you are giving to our concerns, and we hope that this correspondence helps to further our mutual goal of empowering the very poor with financial services. With nearly one billion people around the world living on less than \$1 a day, this issue is among the most pressing of our day.

We understand that International Bank for Reconstruction and Development and International Development Association (IDA) lends directly to governments and not to non-governmental organizations (NGOs). However, we also feel strongly that there are creative solutions to be found and models to be replicated by the World Bank to help build capacity for microfinance for the very poor.

Our primary concern is ensuring that microfinance institutions (MFIs) are serving very poor clients, namely those living on less than \$1 a day or those in the bottom half of people below the national poverty line. To this end, we urge you to create a flexible World Bank grant facility of \$200 million per year to build the capacity of microfinance institutions to reach very poor clients. Large, fully sustainable MFIs with diverse client portfolios tend to move away from microfinance for the very poor because of perceived risk and low return. Further, due to capacity issues very few MFIs that serve the very poor are able to access the capital needed to expand this sort of lending. A grant facility could provide direct financial support for MFIs to extend their outreach to very poor clients, provide financing for research and development of new pro-poor products and services, and provide support for improving and measuring performance in improving very poor people's lives. The facility could build on or parallel the Pro Poor Innovation Challenge designed by the Consultative Group to Assist the Poor (CGAP).

One component of this grant facility that could have enormous impact would be the designation of three Centers of Excellence for best practices in reaching the very poor. These regionally-focused centers should be able to display a range of techniques on how to successfully and intentionally reach the very poor with microfinance services. MFIs interested in improving their outreach to very poor clients could learn volumes from the successful work

accomplished by the Centers of Excellence. As mentioned in our previous letter, we recommend the selection of Jamii Bora in Kenya, Grameen Bank in Bangladesh or other such successful MFIs as possible Centers of Excellence.

We also ask the Bank to support the creation of apex funds in countries and regions with conditions that make them likely to succeed. As you may know, apex funds are wholesale mechanisms that facilitate the disbursement of microfinance funds to MFIs at an affordable rate to help those organizations gain access to needed funds. We recognize that certain preconditions, such as commercial operating principles and independence from the government, are necessary for a local wholesale fund approach and as such, apex funds are not the right solution in every country. However, we note the success of apexes in Afghanistan, Bangladesh, and Bosnia and would urge the Bank to consider other countries where such models might be replicated, particularly in countries with high poverty levels and a microfinance climate ready for this type of infusion of support.

In addition, we urge the World Bank to support the creation of a sub-Saharan Africa regional or sub-regional apex fund to encourage the expansion and replication of successful pro-poor microfinance institutions. A number of successful pro-poor MFIs such as BRAC in Bangladesh are expanding to Africa, and indigenous African MFIs could also benefit from this type of fund. We urge that incentives to reach very poor clients be built into the design of these apex funds.

We applaud the Bank's investment in safety net and subsidy programs to help the poorest take full advantage of financial services. We are encouraged to learn that CGAP has launched "graduation" pilot programs in India, Pakistan, and Haiti modeled on the ultra poor program from BRAC and that CGAP plans to examine other grant and subsidy programs, such as Grameen's Beggars Program. We hope that you will share with us the results of impact studies of these pilot programs. If the results mirror the success demonstrated by the BRAC program, we trust that the Bank would increase its investment in this innovative, common-sense approach. We look forward to learning how much and through which channels the Bank is investing in these linkage programs. Perhaps the most groundbreaking work going on to reach and empower the very poor in Africa and elsewhere is that of Jamii Bora in Kenya. Its replication must move higher on the Bank's list of priorities.

Based on the success of these projects, we urge the Bank to continue extending its financial support to CGAP. Although CGAP has long advocated financial rigor and a commercial approach to microfinance, it has also worked to develop new ways of reaching poorer clients. We welcome the balance of financial sustainability and poverty outreach and encourage funding in particular to extend sustainable services to very poor people.

We share a mutual desire to increase the effectiveness and quality of World Bank funding for microfinance for the very poor and we applaud your commitment to improving and enhancing the World Bank's efforts in this regard. We hope that our proposals to this end will be seriously considered, particularly the creation of a \$200 million annual grant facility for the very poor, designation of three Centers of Excellence in MFI work, and use of the Apex funds, especially in Africa. We look forward to meeting with you early this fall on how to achieve our common goal of helping the very poor find a dignified route out of poverty.

Sincerely,

RUSH HOLT
Member of Congress